

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6057

BILL NUMBER: HB 1343

NOTE PREPARED: Nov 6, 2002

BILL AMENDED:

SUBJECT: State Employee Leave Conversion and Vacation.

FIRST AUTHOR: Rep. Kromkowski

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill allows state employees annually to elect to convert at 100% of the current value of unused accrued vacation and sick leave to cash or a contribution to the employee's deferred compensation plan account. The bill limits to 25 the number of vacation days that full-time state employees may take each year unless the State Personnel Director approves a greater number for catastrophic reasons.

Effective Date: Upon passage.

Summary of Net State Impact: The estimated initial maximum annual cost to the state is between \$27.5 M and \$110 M. The actual cost depends upon the employee participation rate and the number of hours each employee elects to convert. The cost of this program may decrease in future years after employees reach a point where they have converted large outstanding leave balances. Once significant leave balances are converted, additional years may cost between \$8.4 M and \$33.6 M annually, based upon current leave usage trends. However, the cost of this program for succeeding years is difficult to forecast and is dependent upon the leave usage and conversion rates during the first years of the program.

The state may realize reduced expenditures related to overtime, reduced staff turnover and training costs. These savings cannot be estimated due to lack of data.

Explanation of State Expenditures: The total cost of this bill depends upon several factors. These factors include the number of leave hours converted, length of time required to reduce large leave balances, amount of reduced mandatory overtime costs, amount of reduced staff turnover costs, and associated lower staff training and hiring costs. The estimated cost of this bill is between \$27.53 M and \$110 M per year initially, and between \$8.4M and \$33.6M annually in future years once large leave balances have been reduced.

Increased hourly rates will increase costs as well. This estimate assumes that the program is granted tax exempt status by the IRS. The State Personnel Department is required to adopt rules pursuant to this requirement. It is anticipated that the Department can adopt rules for this provision with existing budget and staffing levels.

This new benefit is available to all state employees eligible to earn sick and vacation leave. The employee may elect to convert unused leave to either a monetary contribution to their deferred compensation plan or to cash. For the purposes of this analysis the costs to the state are assumed to be the same. Costs are broken out into three components as follows: initial vacation leave conversion; initial sick leave conversion; and ongoing leave conversion - both vacation and sick leave. See the following sections for more detailed discussion of costs and methodology. Potential savings may be due to reduced mandatory overtime costs, reduced staff turnover costs, and associated lower staff training and hiring costs realized as a result of this bill.

Initial Vacation Leave Conversion: Estimated Cost: \$18.5 M to \$74.2 M (see Table 2 for more details). The number of hours that an employee may convert is dependent upon the years of state service. Table 1 presents the number of vacation leave hours earned by full-time employees by years of service and includes the number of employees in each category.

Table 1. State Employee Vacation Leave Accrual.

Years of Service	Number of Employees	Base Vacation Leave (hrs)	Bonus Leave (hrs)	Total Leave (hrs)
0-4.99	8,064	90	0	90
5-9.99	6,465	90	22.5	112.5
10-19.99	9,370	90	60.0	150
20 and above	7,225	90	97.5	187.5

On average, employees use approximately 70% of leave accrued during a given year (see Table 4). Over time employees may accrue very large leave balances. This bill would allow employees to be reimbursed for unused leave hours to a maximum of what they accrue in a given year, assuming they have at least that many hours unused in their account. (For example an employee with two years of service could convert a maximum of 90 hours of unused vacation leave per year. An employee with three years of service and a total of 60 hours of leave in their account at year's end can only convert 60 hours of leave for that year.) This differs from current policy that states employees can only be reimbursed for six weeks of unused vacation leave upon separation from state service.

The amount of leave converted is voluntary with no set minimum. The cost range presented is based upon the assumption that all employees have accrued at least the maximal number of hours of leave eligible for one year (see Table 1), and convert that amount, and that employee participation rate varies from 25% to 100%. The first-year cost of this bill may vary depending upon the amount of leave that each individual elects to convert.

Table 2. Estimated Initial Vacation Leave Conversion Costs at Varying Participation Rates.

	Participation Rate			
Years of Service	25%	50%	75%	100%
0-4.99	\$2.5 M	\$5.1 M	\$7.6M	\$10.2 M
5-9.99	\$2.9 M	\$5.8 M	\$8.7 M	\$11.6 M
10-19.99	\$6.3 M	\$12.6 M	\$19 M	\$25.3 M
20 and above	\$6.8 M	\$13.6 M	\$20.3 M	\$27.1 M
Total	\$18.5 M	\$37.1 M	\$55.6 M	\$74.2 M

Initial Sick Leave Conversion: Estimated Cost: \$8.8 M to \$35.8 M (See Table 3 for more details). Employees are eligible for 67.5 hours of sick leave per year. On average, employees use approximately 67% of accrued sick leave over the course of a given year (see Table 4 for more detail).

This bill would allow employees to be reimbursed for leave hours to a maximum of what they accrue in a given year. For example, an employee with two years of service could convert a maximum of 67.5 hours of sick leave. This example assumes that the employee has 67.5 hours of sick leave in their account, as an employee can only convert available leave. Thus, an employee with three years of service and a total of 60 hours of leave in their account at years end can only convert 60 hours of leave for that year. The amount of leave converted is voluntary with no set minimum. This differs from current policy that states employees cannot be reimbursed for unused sick leave upon separation from state service.

The cost range presented is based upon the assumption that all employees have accrued at least the maximal number of hours of sick leave eligible for one year (see Table 1), and convert that amount, and that employee participation rate varies from 25% to 100%. The first-year cost of this bill may vary depending upon the amount of leave that each individual elects to convert.

Table 3. Estimated Initial Sick Leave Conversion Costs at Varying Participation Rates.

	Participation Rate			
Years of Service	25%	50%	75%	100%
0-4.99	\$1.9 M	\$3.8 M	\$5.7M	\$7.6 M
5-9.99	\$1.7 M	\$3.5 M	\$5.2 M	\$7 M
10-19.99	\$2.8 M	\$5.7 M	\$8.5 M	\$11.4 M
20 and above	\$2.4 M	\$4.9 M	\$7.3 M	\$9.8 M
Total	\$8.8 M	\$17.9 M	\$26.7 M	\$35.8 M

Ongoing Leave Conversion: The cost of this program may decrease after employees reach a point where they have converted large outstanding leave balances. The amount of time required to reach this point may range from one year to ten or more years depending upon initial unused leave balances. Table 4 presents the amount of vacation and sick leave earned, average leave used, and the associated remaining leave balances from one year. Based upon these numbers, the estimated minimum maintenance cost of the leave conversion program is estimated to be between \$8.2 M and \$33.7 M annually once large leave balances have been converted. However, the impact that this program will have on leave usage patterns is unclear at this time given the new financial incentive for employees to accrue and convert leave time.

Table 4. Annual Eligible Leave Balances Based Upon Current Usage Patterns.

Years of Service	Vacation Earned	Vacation Used	Vacation Balance	Sick Earned	Sick Used	Sick Balance	Total Balance
0-4.99	90	57.39	32.61	67.5	38.79	28.71	61.32
5-9.99	112.5	78.91	33.59	67.5	44.28	23.22	56.81
10-19.99	150	106.17	43.83	67.5	47.55	19.95	63.78
20 and above	187.5	134.98	52.52	67.5	50.42	17.08	69.6

The cost of converting accrued annual vacation leave on an ongoing basis is estimated to be between \$5.5 M and \$22.2M. This assumes that all unused leave from one year will be converted at year's end, and that between 25% and 100% of employees participate respectively (see Table 5 for more detail).

Table 5. Estimated Ongoing Vacation Leave Conversion Costs at Varying Participation Rates.

	Participation Rate			
Years of Service	25%	50%	75%	100%
0-4.99	\$0.9 M	\$1.8 M	\$2.8 M	\$3.7 M
5-9.99	\$0.9 M	\$1.7 M	\$2.6 M	\$3.5 M
10-19.99	\$1.8 M	\$3.7 M	\$5.5 M	\$7.4 M
20+	\$1.9 M	\$3.8 M	\$5.7 M	\$7.6 M
Total	\$5.5 M	\$11 M	\$16.6 M	\$22.2 M

The cost of converting accrued sick leave on an ongoing basis is estimated to be between \$2.9 M and \$11.5M. This assumes that all accrued unused leave from one year will be converted at year's end, and that between 25% and 100% of employees participate respectively (see Table 6 for more detail).

**Table 6. Estimated Ongoing Sick Leave Conversion Costs
at Varying Participation Rates.**

Years of Service	Participation Rate			
	25%	50%	75%	100%
0-4.99	\$0.7 M	\$1.6 M	\$2.4M	\$3.2 M
5-9.99	\$0.6 M	\$1.2 M	\$1.8 M	\$2.4 M
10-19.99	\$0.8 M	\$1.7 M	\$2.5 M	\$3.4 M
20+	\$0.6 M	\$1.2 M	\$1.9 M	\$2.5 M
Total	\$2.7 M	\$5.7 M	\$8.6 M	\$11.5 M

Change of Leave Usage Allowed: This bill includes the provision that an employee can only take 25 days of vacation in each calendar year unless for catastrophic reasons. An employee may take a longer period of leave if authorized. The State Personnel Department is required to adopt rules pursuant to this requirement. It is anticipated that the Department can do this with the current budget and staffing at no additional cost. Current regulations state that an employee can take no more than four weeks leave at any one time without prior approval. The reduction in available leave taken may reduce expenditures for overtime. However it may also have an effect on the number of hours used by senior staff and result in more hours being converted earlier.

Leave Conversion Rules: The State Department of Personnel is responsible for adopting rules to implement the provisions of this bill. It is anticipated that the Department can do this within existing budget and staffing levels.

Potential Cost Savings: The cost savings associated with this bill are difficult to quantify. These savings depend upon the amount of reduced mandatory overtime costs, amount of reduced staff turnover costs, and associated lower staff training and hiring costs realized as a result of this bill. For example the Department of Correction uses a mandatory overtime system to accommodate vacation requests and regular staff shortages. Mandatory overtime cost the Department \$30.6 M this past fiscal year (FY 2002 as of 4/24/02). The Department has an average turnover rate of 25.7% - adult custody staff at 24.11% and juvenile custody staff at 36.01% (FY 2001 data). The Department incurs a cost of \$4,500 to train each new employee. Given the number of employees that left during FY 2001, this represents a total training cost of \$5.7 M. The staff turnover rate for all state government averaged 18.7% from 1999 through 2001.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: Keith Beesley, State Personnel Department, 317-232-3062; Kathy Lisby, Indiana Department of Correction, 317-232-1926.

Fiscal Analyst: Michael Molnar, 317-232-9559